

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 NEA-10 PA-01

PRS-01 /105 W

----- 039636

R 011928Z APR 76

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 3536

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

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EO 11652:K NA

TAGS: ENRG BR

SUBJ: RISK CONTRACTS FOR PETROLEUM

REF: RIO 721

1. SUMMARY. PERIOD FOR FOREIGN OIL COMPANIES TO SUBMIT APPLICATIONS FOR PRE-QUALIFYING FOR RISK CONTRACTS IN 10 ANNOUNCED AREAS CLOSED ON MARCH 17. PETROBRAS REPORTED THAT 52 COMPANIES SUBMITTED APPLICATIONS, INCLUDING, WE BELIEVE, AT LEAST 30 US COMPANIES. NAMES OF SELECTED PRE-QUALIFIED FIRMS HAVE YET TO BE ANNOUNCED AND MAY NOT BE FOR ANOTHER SEVERAL WEEKS. PETROBRAS IS NOT EXPECTED TO ANNOUNCE PROPOSED CONTRACTUAL TERMS FOR SUBSEQUENT NEGOTIATIONS FOR A MONTH OR MORE AFTER THAT. END SUMMARY.

2. ON MARCH 17 THE ONE-MONTH PERIOD ENDED FOR FOREIGN OIL COMPANIES TO SUBMIT APPLICATIONS FOR PRE-QUALIFICATION UNDER THE RISK CONTRACT PROGRAM (REFTEL). ACCORDING TO PETROBRAS, 52 FIRMS FILED APPLICATIONS, INCLUDING THREE LARGE BRAZILIAN-OWNED

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CONSTRUCTION COMPANIES WITH NO PETROLEUM EXPERIENCE (THEIR

EVENTUAL PARTICIPATION PROBABLY WILL BE CONSIDERED ONLY IN CONJUNCTION WITH A FOREIGN COMPANY). AT LEAST 30 US OIL COMPANIES ARE BELIEVED TO HAVE SUBMITTED APPLICATIONS, INCLUDING ALL OF THE VERY LARGE FIRMS WHICH COME TO MIND PLUS MANY SMALLER ONES.

3. PETROBRAS HAS CREATED A NEW OFFICE TO HANDLE RISK CONTRACT MATTERS. THE SUPERINTENDENCIA DOS CONTRATOS DE EXPLORACAO (SUPEX) IS NOW THE POINT OF CONTACT FOR ALL FOREIGN COMPANIES. THE OFFICE CHIEF IS DR. LAURO PEREIRA VIEIRA, A GEOLOGIST WHO HAS HAD 18 YEARS OF EXPERIENCE WITH PETROBRAS, MOST RECENTLY RUNNING BRASPETRO'S OWN EXPLORATION PROGRAM IN IRAN. VISITING US EXECUTIVES HAVE BEEN EXTREMELY IMPRESSED WITH VIEIRA, ESPECIALLY HIS UNDERSTANDING OF THE INTRICACIES OF RISK CONTRACTS, HIS COOPERATIVE ATTITUDE AND HIS CANDOR. JUST BEFORE THE MARCH 17 DEADLINE, HE TOLD A NUMBER OF VISITORS THAT IT WOULD TAKE PETROBRAS AT LEAST A MONTH TO SELECT THE PRE-QUALIFIED COMPANIES AND ANOTHER MONTH FOLLOWING THAT BEFORE THE SELECTED COMPANIES WOULD RECEIVE THE PROPOSED CONTRACTUAL TERMS WHICH WOULD SERVE AS THE BASIS FOR NEGOTIATIONS. VIEIRA STATED AT THE TIME THAT MANY DETAILS STILL HAD TO BE RESOLVED, INCLUDING HOW MUCH PETROBRAS WOULD CHARGE FOR THE GEOLOGICAL AND GEOPHYSICAL DATA WHICH IT WOULD MAKE AVAILABLE TO THE COMPANIES SO THAT THEY CAN FORMULATE THEIR PROPOSALS. RECENT UNSUBSTANTIATED PRESS REPORTS INDICATE THAT \$400,000 WILL BE CHARGED FOR THE DATA FOR ALL OF THE BLOCKS, AND \$50,000 FOR ANY SINGLE BLOCK. IF TRUE, THIS WILL IMMEDIATELY DRIVE AWAY SOME OF THE SMALLER COMPANIES, WHICH MAY INDEED BE ONE REASON FOR THE HIGH COST; ANOTHER IMPORTANT MOTIVE WOULD BE TO HELP REPAY THE COSTS OF PETROBRAS' PREVIOUS WORK IN THE AREAS.

4. WE HAVE TALKED RECENTLY WITH EXECUTIVES OF ABOUT A DOZEN U.S. OIL COMPANIES. THEIR GENERAL REACTIONS TO THE RISK CONTRACT PROGRAM FOLLOW:

(A) NONE ARE INTERESTED IN THE ONE ON-SHORE AREA IN THE MIDDLE AMAZON BASIN, BUT ALL ARE INTERESTED IN THE NINE OFF-SHORE BLOCKS. THE MOUTH OF THE AMAZON AND THE SANTOS BASIN CONTINUE TO BE THE AREAS OF MAIN INTEREST, BUT COMPANIES MIGHT CONSIDER THE OTHER SPOTS JUST AS PROMISING ONCE THEY STUDY THE PETROBRAS DATA;  
(B) THE COMPANIES WOULD HAVE LIKED TO HAVE SEEN MUCH LARGER BLOCKS OFFERED, WHICH WOULD HAVE ALLOWED MORE AREA TO PICK AND CHOOSE THE BEST LOCATIONS FOR DRILLING. THIS COMPLAINT ALSO SURFACED  
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IN THE PRESS, BUT MINISTER OF MINES AND ENERGY SHIGEAKI UEKI QUICKLY STEPPED IN AND ANNOUNCED THAT THE AREAS WOULD NOT BE ENLARGED;

(C) SOME COMPANIES MAY NOT BID AT ALL ON THE 10 ANNOUNCED BLOCKS, PREFERRING TO WAIT FOR WHAT THEY EXPECT WILL BE ADDITIONAL AREAS TO BE ANNOUNCED IN THE FUTURE;

(D) UEKI CONTINUES TO PUBLICLY STATE THAT PAYMENT WILL BE MADE TO THE COMPANIES IN DOLLARS, NOT IN OIL. ALL OF THE COMPANIES

WITH WHOM WE HAVE TALKED RESPOND THAT IF THAT IS IN FACT THE GOB'S POSITION, THEY WILL NOT COME IN. THEY DO, OF COURSE, APPRECIATE PETROBRAS' MONOPOLY POSITION AND THE ATTENDANT POLITICAL PROBLEMS, BUT FEEL THAT THE CONTRACTS CAN BE WRITTEN IN SUCH A WAY AS TO TAKE CARE OF THE MATTER. THE COMPANIES MIGHT BE WILLING TO AGREE NOT TO TAKE ANY PRODUCTION UNTIL BRAZIL REACHES A POINT OF SELF-SUFFICIENCY;

(E) SOME PRESS REPORTS HAVE STATED THAT IF OIL IS FOUND, PETROBRAS WILL TAKE OVER AT THAT POINT AND PAY OFF THE COMPANY CONCERNED. AGAIN, THE COMPANIES WITH WHOM WE HAVE TALKED SAY THAT WOULD NOT BE ACCEPTABLE. THEY STRESS THEY ARE NOT IN THE BUSINESS OF MERELY SUPPLYING EXPLORATION SERVICES. ANYWAY, THEY DOUBT THAT PETROBRAS ON ITS OWN WOULD HAVE THE TECHNICAL OR FINANCIAL RESOURCES TO PUT MOST OF THE OFF-SHORE, DEEP-WATER FIELDS INTO PRODUCTION;

(F) PETROBRAS OFFICIALS HAVE STATED THAT ONLY ONE COMPANY WILL BE SELECTED FOR EACH OF THE 10 AREAS. COMPANY REPS SEE NO PROBLEM, AS LONG AS A PRIME CONTRACTOR CAN PUT TOGETHER A CONSORTIUM FOR EACH BLOCK. THEY STATE THAT NO ONE COMPANY COULD AFFORD TO WORK ALONE IN ANY OF THE BLOCKS AND PREDICT THAT COMPLEX DEALS INVOLVING MANY COMPANIES WILL BE ORGANIZED, WITH DIFFERENT COMBINATIONS OF CONSORTIA PARTNERS INVOLVED ON EACH BLOCK.

5. EMBASSY BRASILIA CONCURS ABOVE MESSAGE.  
DEXTER

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## Message Attributes

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